



UG Healthcare Corporation Ltd

One quarter already beat one year

SINGAPORE | HEALTHCARE | 1Q21 BUSINESS UPDATE

- 1Q21 revenue and earnings beat our forecasts by more than 40%. Higher selling prices bumped up revenue and margins. Quarter's PATMI of S\$22.7mn already higher than FY20.
- Revenue surged 170% YoY to S\$71mn: Europe +182% YoY, South America +237%.
- Gross margins were a record 70%, higher than our forecast 43%.
- We raise FY21e PATMI by 55% to S\$84.3mn for higher ASPs, revenue and gross margins. TP is flat at S\$1.35 vs S\$1.33 previously, as we use more normalised earnings in FY22e as our basis. TP is now pegged at 14x PE, a 30% discount to larger glove peers vs 40% discount earlier. We believe this is warranted by an improved balance sheet, profitability, track record and expansion plans.

Results at a glance

SGD '000	1Q21	1Q20	YoY	Comments
Revenue	71,178	26,302	170.6%	Production rose high-teens YoY.
- Europe	30,780	10,905	182.3%	UK and Germany the key countries.
- S America	21,926	6,488	237.9%	Brazil drove growth.
- Asia	7,012	2,069	238.9%	
Gross profit	49,852	4,976	901.8%	Higher selling prices.
PBT	35,872	-70	n.m.	
PATMI	22,679	305	n.m.	
Gross Margins	70.0%	18.9%	51.1%	2H20 margin was 36%.
Net cash	2,991	-34,557	-108.7%	Placement proceeds S\$18.38mn.

Source: Company, PSR

Positives

+ Higher ASPs propelled revenue. 1Q21 revenue increased 170% YoY to S\$71mn. Volume growth was in the high teens. Higher selling prices was the main reason for the surge in revenue. Countries with the highest growth were Europe (Germany/UK), South America (Brazil) and Asia (China).

+ Blockbuster margins. Gross margin was a record 70%. Higher selling prices were behind this. The price of nitrile input is rising but rising glove prices should be able to offset this. Raw materials are around 45% of production costs and 13% of sales. Even a 10% rise in nitrile prices will only shave 1.3% off gross margins, in our estimation. UGHC's current 8-10% MoM hikes in ASPs should overwhelm increases in material costs.

+ Net cash. With better operating profits and cash flows plus net placement* proceeds of S\$18.4mn, UGHC had net cash of S\$3mn (Jun 2020: S\$25.8mn net debt).

*On 21 August 2020, UGHC completed the placement of 7.5mn new shares at S\$2.545 per share. On 31 August 2020, UGHC announced a share split of 1 existing ordinary share into 3 ordinary shares.

Negative

- Higher effective tax and other costs. Effective tax in 1Q21 was 28%, up from last year's 15% and our 18% assumption. The jump was due to under-provisions in prior years. The other exceptional rise in expenses was a combined S\$2.5mn for additional staff bonuses and forex losses.

9 November 2020

BUY (Maintained)

CLOSING PRICE	SGD 0.965
FORECAST DIV	SGD 0.015
TARGET PRICE	SGD 1.35
TOTAL RETURN	41.5%

COMPANY DATA

Bloomberg CODE:	UGHC SP
O/S SHARES (MN):	615.0
MARKET CAP (USD mn / SGD mn):	440 / 593
52 - WK HI/LO (SGD):	1.15 / 0.04
3M Average Daily T/O (mn):	10.74

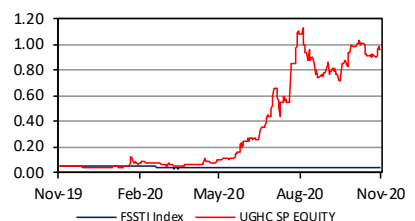
MAJOR SHAREHOLDERS

Zen UG Pte Ltd	49.7%
Raydion Direct Global Inc	12.8%

PRICE PERFORMANCE

	1MTH	3MTH	1YR
COMPANY	(2.0)	(12.3)	1755.8
STI RETURN	2.1	1.8	(17.5)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Jun, SGD (mn)	FY19	FY20	FY21e	FY22e
Revenue	91.7	144.2	290.7	339.7
EBITDA	3.1	16.6	95.4	60.3
Net Profit	2.5	13.6	84.4	55.3
EPS (SGD cents)	0.4	2.3	13.7	9.0
P/E (X)	223.2	42.1	7.0	10.7
Dividend Yield	0.3%	0.7%	1.6%	2.1%
ROE	5.8%	25.0%	50.5%	24.6%
ROA	2.5%	12.0%	34.9%	18.9%

Source: Company, PSR

VALUATION METHOD

14x PE Multiple FY22e

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Outlook

Visibility for FY22e is limited. Our FY22e forecasts conservatively factor in a steep 24% decline in ASPs and 26% point fall in gross margins. Growth is expected to be supported by a 52% jump in effective capacity. Near term, we expect 2Q21e earnings to rise QoQ as glove selling prices are still rising.

Production capacity will be expanded in two phases:

- Phase 1: addition of 500mn pieces of gloves by end-Mar 2021 to 3.4bn pieces at a capex of RM20mn.
- Phase 2: addition of 1.2bn pieces of gloves by end-Jun 2021 to 4.6bn pieces at a capex of RM60-65mn. This includes newly-acquired land close to UGHC's existing facilities.

Maintain BUY with higher TP of S\$1.35, from S\$1.33

Our TP used to be based on a 40% discount to the big 4 glove makers. We are narrowing this discount to 30%, given its improved balance sheet, profitability, track record and expansion plans. At a 30% discount to the Big 4, PE is 14x. We derive a TP of S\$1.35.

Given uncertainties surrounding the sustainability of its record margins and selling prices when the pandemic winds down, we value UGHC on more normalised earnings in FY22e. We already incorporate a 24% decline in ASPs and 25% point drop in GP margins. Volume growth is expected to be its major earnings driver that year.

Figure 1: Big 4 are trading at 20x PE, 2 years forward earnings

Company	1 Mth Perf.	3 Mth Perf.	YTD Perf.	Share Px Local Crcy	Mkt. Cap. (US\$ m)	Yr 0	PE Yr +1	PE Yr +2	P/BV Yr 0	Dividend Yield	ROE Yr 0	EBITDA Margin
Rubber Gloves												
Top Glove	-1.6%	-10.2%	442.6%	8.50	16,767	37.1	8.2	20.1	11.0	0.5%	42.3%	35.1%
Hartalega Holdings	6.9%	-8.1%	232.1%	18.20	15,110	143.9	25.7	18.5	18.4	0.2%	34.8%	23.6%
Supermax Corp	6.0%	-17.7%	1307.2%	9.78	6,085	47.9	8.5	13.4	11.4	0.0%	77.2%	34.8%
Kossan Rubber	1.9%	-21.9%	260.1%	7.49	4,641	85.3	25.9	19.9	12.1	0.0%	20.8%	17.3%
Riverstone	-1.1%	-18.3%	300.0%	3.70	2,035	64.4	17.3	10.6	9.5	0.6%	25.4%	20.8%
Comfort Gloves	16.8%	-30.0%	455.7%	4.39	620	77.1	16.5	13.8	6.9	0.0%	22.9%	13.2%
Rubberex Crop.	30.3%	11.0%	1316.7%	2.55	494	76.9	14.7	8.0	7.3	0.3%	23.1%	11.2%
UG Healthcare	-2.0%	-12.3%	1967.9%	0.97	440	42.1	7.0	10.7	10.5	0.2%	25.0%	11.5%
	3.1%	-12.1%	487.1%		46,192	58.1	12.2	17.3	13.4	0.3%	40.9%	28.1%
Big 4 Glove Makers	3.0%	-11.8%	477.7%			62.5	13.1	19.8				

Source: PSR, Bloomberg

Financials

Income Statement

Y/E Jun, SGD '000	FY18	FY19	FY20	FY21e	FY22e
Revenue	78,060	91,715	144,209	290,749	339,736
Gross profit	12,764	18,719	42,519	172,684	111,825
EBITDA	5,111	3,129	16,573	95,418	60,341
Depreciation & amortisation	1,432	1,608	2,443	2,869	3,259
EBIT	3,670	1,506	14,110	92,530	57,062
Net Finance Inc/(Exp)	(758)	(1,618)	(1,985)	(1,276)	(526)
Profit before tax	5,047	2,763	18,057	121,727	71,052
Taxation	(734)	(546)	(2,791)	(27,997)	(12,789)
Minority interest	22	290	(1,684)	(9,373)	(2,913)
PATMI	4,335	2,507	13,582	84,357	55,349

Per share data (SGD Cents)

Y/E Jun	FY18	FY19	FY20	FY21e	FY22e
EPS, Reported	0.8	0.4	2.3	13.7	9.0
DPS	0.2	0.3	0.7	1.5	2.0
BVPS	7.3	7.5	9.2	27.2	36.6

Cash Flow

Y/E Jun, SGD '000	FY18	FY19	FY20	FY21e	FY22e
CFO					
Profit before tax	5,047	2,763	18,057	121,727	71,052
Adjustments	3,837	736	2,551	2,795	1,602
WC changes	(7,581)	(7,652)	(7,782)	(50,742)	(16,656)
Cash generated from ops	1,303	(4,153)	12,826	73,780	55,998
Tax paid	(947)	(523)	125	(27,997)	(12,789)
Cashflow from ops	(402)	(6,367)	10,989	44,507	42,683
CFI					
CAPEX, net	(4,679)	(8,532)	(3,288)	(10,000)	(10,000)
Others	265	1,643	441	169	1,002
Cashflow from investments	(4,414)	(6,889)	(2,847)	(9,831)	(8,998)
CFE					
Share issuance, net	-	-	-	19,088	-
Loans, net of repayments	7,953	11,499	(3,224)	(15,000)	(15,000)
Dividends	-	(103)	(104)	-	-
Others	-	-	(410)	-	-
Cashflow from financing	7,953	11,396	(3,738)	4,088	(15,000)
Net change in cash	3,137	(1,860)	4,404	38,763	18,685
CCE, end	8,475	6,615	9,275	48,038	66,723

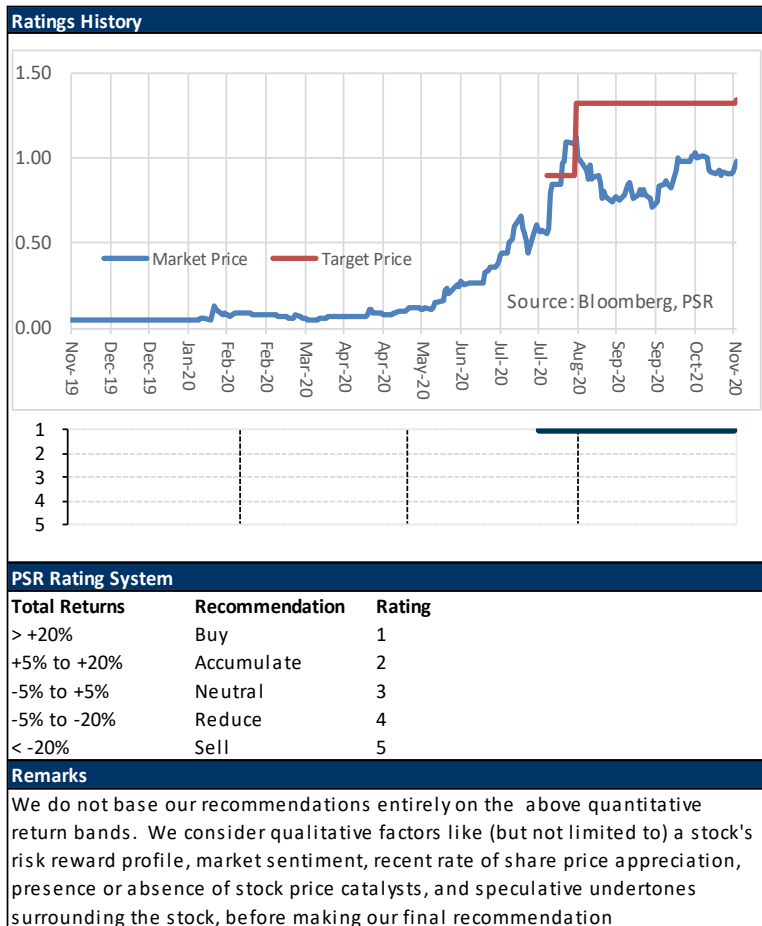
Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Jun, SGD '000	FY18	FY19	FY20	FY21e	FY22e
ASSETS					
Trade and other receivables	25,138	24,052	32,858	69,780	81,537
Cash	6,731	4,871	9,292	48,055	66,740
Inventories	22,130	31,031	33,723	78,502	91,729
Total current assets	55,184	61,750	75,987	196,451	240,120
PPE & IA	23,615	32,340	31,778	38,890	45,611
Others	6,385	4,999	5,250	6,450	7,650
Total non-current assets	30,000	37,339	37,028	45,340	53,261
Total Assets	85,184	99,089	113,015	241,791	293,381
LIABILITIES					
Accounts payable	13,625	14,184	18,469	49,427	57,755
Bank borrowings	21,362	32,239	30,520	15,520	520
Derivatives	753	-	-	-	-
Others	-	-	-	-	-
Total current liabilities	35,740	46,424	50,815	66,773	60,101
Deferred tax liabilities	2,092	3,201	3,142	3,142	3,142
Long-term borrowings	5,478	6,100	4,595	4,595	4,595
Others	-	-	191	191	191
Total non-current liabilities	7,570	9,301	7,928	7,928	7,928
Total Liabilities	43,310	55,725	58,743	74,701	68,029
Equity					
Non-controlling interests	(83)	1,036	2,051	11,424	14,337
Shareholder Equity	41,874	43,364	54,272	167,089	225,352

Valuation Ratios

Y/E Jun	FY18	FY19	FY20	FY21e	FY22e
P/E (X)	127.9	223.2	42.1	7.0	10.7
P/B (X)	13.2	12.9	10.5	3.6	2.6
EV/EBITDA (X)	119.4	199.4	37.3	5.9	8.8
Dividend Yield (%)	0.2%	0.3%	0.7%	1.6%	2.1%
Growth & Margins					
Growth					
Revenue	19.7%	17.5%	57.2%	101.6%	16.8%
EBITDA	-35.5%	-38.8%	429.7%	475.7%	-36.8%
EBIT	123.0%	-59.0%	836.9%	555.8%	-38.3%
Net profit, adj.	77.4%	-42.2%	441.8%	521.1%	-34.4%
Margins					
Gross margin	16.4%	20.4%	29.5%	59.4%	32.9%
EBITDA margin	6.5%	3.4%	11.5%	32.8%	17.8%
EBIT margin	4.7%	1.6%	9.8%	31.8%	16.8%
Net profit margin	5.6%	2.7%	9.4%	29.0%	16.3%
Key Ratios					
ROE	10.4%	5.8%	25.0%	50.5%	24.6%
ROA	5.1%	2.5%	12.0%	34.9%	18.9%
Net Gearing	39.9%	70.5%	44.9%	Net cash	Net cash
Net Debt/EBITDA (X)	3.3	9.8	1.5	-0.3	-1.0



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